

**TAB 44**

**COMMENTARY**

**1997 ACTUAL**

**ROXANE LABORATORIES, INC  
COLUMBUS, OHIO**

February 3, 1998

**ROXANE LABORATORIES, INC.**  
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**ROXANE LABORATORIES, INC.**  
**INCOME STATEMENT**  
**TOTAL COMPANY**  
**1997 Budget & 1997 Actual**

Thousands U.S. \$

	1997 Budget	1997 Actual	Actual Over/(Under) 1997 Budget
Gross Sales of Goods	561,070	459,195	(101,875)
Sales Discounts	237,775	142,319	(95,456)
Net Sales of Goods	323,295	316,876	(6,419)
Other Income	4,500	3,149	(1,351)
Net Sales	327,795	320,025	(7,770)
Standard Cost of Goods Sold	156,196	132,169	(24,027)
Variable Cost of Distribution	2,800	3,346	546
Royalties	7,734	15,162	7,428
Contribution I	161,065	169,348	8,283
Direct Promotion	20,055	17,139	(2,916)
Contribution IA	141,010	152,209	11,199
Field Force	17,410	16,153	(1,257)
Contribution II	123,600	136,056	12,456
General Promotion - Activities	2,524	3,012	488
General Promotion - Organization	9,807	11,990	2,183
Indirect Cost of Distribution	4,358	3,980	(378)
Research & Development I	11,301	10,211	(1,090)
Medical Cost I	13,156	12,080	(1,076)
Adminstration	5,144	4,721	(423)
Variances for Cost of Goods Sold I	2,894	(267)	(3,161)
(Income)/Expense I	5,206	9,789	4,583
Contribution III	69,210	80,540	11,330
Operating Income/(Loss) BU	69,210	80,540	11,330
(Income)/Expense III	0	6,211	6,211
Operating Income/(Loss) BA	69,210	74,329	5,119
Financial Income/(Expense)	(3,071)	(3,221)	(150)
Income/(Loss) Before Taxes	66,139	71,108	4,969
Taxes	25,734	30,972	5,238
Income/(Loss) After Taxes	40,405	40,136	(269)

**ROXANE LABORATORIES, INC.**  
**Commentary on Total Company Income Statement**  
**Millions U.S. \$**

**Overview**

- 1997 Total Company Net Sales \$7.8 (2.4%) below 1997 Budget.
  - Net Sales are reduced by an unbudgeted reserve (\$9.1) for customer inventory price adjustments planned for early 1998.
- 1997 Contribution I as a % Net Sales is 52.9 % versus 1997 Budget of 49.1%.
  - Slower sales price erosion for Ipratropium than budgeted.
  - Favorable sales mix of high margin products e.g., Viramune, Azathioprine.
- 1997 Total Company Operating Income BA up \$5.1 (7.4%) from 1997 Budget.

**(Income)/Expense III**

- 1997 Income/Expense III \$6.2 above 1997 Budget.
  - Additional \$2.9 expenses related to OPINA restructuring activities (e.g., Regional Information Technology \$1.6, Supply Chain \$0.8)
  - Affiliate OPINA expenses of \$3.3 reclassified to Income/Expense.

**ROXANE LABORATORIES, INC.**  
**INCOME STATEMENT**  
**TOTAL COMPANY**  
**1997 Expectation & 1997 Actual**

Thousands U.S. \$

	1997 Expect	1997 Actual	Actual Over/(Under) 1997 Expect
Gross Sales of Goods	486,217	459,195	(27,022)
Sales Discounts	152,181	142,319	(9,862)
Net Sales of Goods	334,036	316,876	(17,160)
Other Income	2,780	3,149	369
Net Sales	336,816	320,025	(16,791)
Standard Cost of Goods Sold	131,305	132,169	864
Variable Cost of Distribution	2,500	3,346	846
Royalties	14,980	15,162	182
Contribution I	188,031	169,348	(18,683)
Direct Promotion	18,050	17,139	(911)
Contribution IA	169,981	152,209	(17,772)
Field Force	17,039	16,153	(886)
Contribution II	152,942	136,056	(16,886)
General Promotion - Activities	2,528	3,012	484
General Promotion - Organization	10,751	11,990	1,239
Indirect Cost of Distribution	4,841	3,980	(861)
Research & Development I	9,064	10,211	1,147
Medical Cost I	13,281	12,080	(1,201)
Adminstration	5,002	4,721	(281)
Variances for Cost of Goods Sold I	(1,797)	(267)	1,530
(Income)/Expense I	6,700	9,789	3,089
Contribution III	102,572	80,540	(22,032)
Operating Income/(Loss) BU	102,572	80,540	(22,032)
(Income)/Expense III	5,746	6,211	465
Operating Income/(Loss) BA	96,826	74,329	(22,497)
Financial Income/(Expense)	(3,116)	(3,221)	(105)
Income/(Loss) Before Taxes	93,710	71,108	(22,602)
Taxes	36,416	30,972	(5,444)
Income/(Loss) After Taxes	57,294	40,136	(17,158)

**ROXANE LABORATORIES, INC.**  
**Commentary on Total Company Income Statement**  
**Expectation V. Actual**  
**Millions U.S. \$**

- 1997 Total Company Net Sales \$16.8 (5.0%) below 1997 Expectation.
  - Net Sales are reduced by an unbudgeted reserve (\$9.1) for customer inventory price adjustments planned for early 1998.
  - Net Sales of Ipratropium are \$5.2 below Expectation due to higher than anticipated wholesaler inventory levels.
  - Net Sales of Ranitidine are \$2.5 below Expectation due to higher than anticipated competition and price erosion.
- 1997 Contribution I as a % Net Sales is 52.9 % versus 1997 Expectation of 55.8%.
  - Contribution I percentage adversely affected by reserve for price adjustments.
- 1997 Variance for Cost of Goods Sold I \$1.5 above Expectation due slower than anticipated production levels in November and December.
- 1997 Income/Expense I \$3.1 above Expectation.
  - Unforeseen write off of Production Equipment \$2.8
  - Unforeseen increase in bad debt reserves \$0.3
- 1997 Total Company Operating Income BA down \$22.5 (23.2%) from 1997 Expectation.

**ROXANE LABORATORIES, INC**  
**RESEARCH & DEVELOPMENT AND MEDICAL COST**  
**1997 Budget & 1997 Actual**

Thousands U.S. \$

	<b>1997 Budget</b>	<b>1997 Actual</b>	<b>Actual Over/(Under) 1997 Budget</b>
<b>Research &amp; Development I and Medical Cost I</b>			
<b>Research &amp; Development I</b>	<b>\$11,301</b>	<b>\$10,211</b>	<b>(\$1,090)</b>
<b>Medical Cost I</b>	<b>\$13,156</b>	<b>\$12,080</b>	<b>(1,076)</b>
<b>Total</b>	<b>\$24,457</b>	<b>\$22,291</b>	<b>(\$2,166)</b>
<b>As a % of Net Sales</b>	<b>7.46%</b>	<b>6.97%</b>	<b>-0.50%</b>



**ROXANE LABORATORIES, INC.**  
**Commentary on Research & Development I and Medical I Cost**  
**Millions U.S. \$**

**Research & Development I and Medical I**

- 1997 Actual \$2.2 (8.9 %) below 1997 Budget.
  - Affiliate R&D OPINA expenses of \$2.6 reclassified to Income/Expense III.

**ROXANE LABORATORIES, INC**  
**PERSONNEL DATA**  
**1997 Budget & 1997 Actual**

Thousands U.S. \$

	<b>1997 Budget</b>	<b>1997 Actual</b>	<b>Actual Over/(Under) 1997 Budget</b>
<b>Salaries &amp; Wages</b>	<b>\$37,022</b>	<b>\$36,091</b>	<b>(\$931)</b>
<b>Social Costs &amp; Pension Expenses</b>	<b>10,366</b>	<b>8,887</b>	<b>(1,479)</b>
<b>Total Personnel Costs</b>	<b>\$47,388</b>	<b>\$44,978</b>	<b>(\$2,410)</b>
<b>Personnel Costs as a % of Net Sales</b>	<b>14.46%</b>	<b>14.05%</b>	
<b>Regular Headcount</b>	<b>938</b>	<b>855</b>	<b>(83)</b>
<b>Supplemental Work Force (Temp's)</b>	<b>69</b>	<b>99</b>	<b>30</b>
<b>Total Headcount</b>	<b>1,007</b>	<b>954</b>	<b>(53)</b>

**ROXANE LABORATORIES, INC**  
**PERSONNEL DATA - HEADCOUNT DETAIL**  
**1997 Budget & 1997 Actual**

	<b>1997 Budget</b>	<b>1997 Actual</b>	<b>Actual Over/(Under) 1997 Budget</b>
<b>Pharmaceutical Manufacturing</b>	<b>620</b>	<b>559</b>	<b>(61)</b>
<b>Marketing Ethical Office</b>	<b>29</b>	<b>26</b>	<b>(3)</b>
<b>Marketing Ethical Field</b>	<b>133</b>	<b>121</b>	<b>(12)</b>
<b>Medicine Human Pharmaceutical</b>	<b>20</b>	<b>19</b>	<b>(1)</b>
<b>R&amp;D Human Pharmaceutical</b>	<b>64</b>	<b>61</b>	<b>(3)</b>
<b>Central Functions</b>	<b>72</b>	<b>69</b>	<b>(3)</b>
<b>Total Headcount</b>	<b>938</b>	<b>855</b>	<b>(83)</b>

**ROXANE LABORATORIES, INC.**  
**Commentary on Personnel Data**  
**Millions U.S. \$**

**Personnel Costs**

- 1997 Actual \$2.4 (5.1 %) below 1997 Budget.
  - Reflects lower headcount to Budget.
  - Reflects increase salaries due to market influence.

**Regular Headcount**

- 1997 Headcount is 83 (8.8%) below 1997 Budget.
  - Ethical Pharmaceutical staff and Field Force are 15 below Budget due to time delays in the hiring process (18 marketing positions were filled in January 1998).
  - Pharmaceutical Manufacturing is 61 below Budget due to slower production volume at year end.

**ROXANE LABORATORIES, INC.**  
**BALANCE SHEET**  
**1997 Budget & 1997 Actual**

Thousands U.S. \$

	1997 Budget	1997 Actual	Actual Over/(Under) 1997 Budget
<b>ASSETS</b>			
Intangibles	\$33,455	\$31,347	(2,108)
Property, Plant and Equipment	126,578	125,103	(1,475)
Long-Term Investments	646	52	(594)
Total Prop, Plant, Equip, and Investments	160,679	156,502	(4,177)
Inventories	50,000	59,046	9,046
Trade Accounts Receivable	37,000	31,992	(5,008)
Receivables from Affiliates	0	0	0
Other Assets	4,000	3,383	(617)
Total Receivables	41,000	35,375	(5,625)
Liquid Funds	0	345	345
Prepaid Expenses	200	194	(6)
Total Current Assets	91,200	94,960	3,760
Total Assets	251,879	251,462	(417)
<b>SHAREHOLDERS' EQUITY, PROVISION, AND LIABILITIES</b>			
Share Capital	19	19	0
Additional Paid-In Capital	8,735	8,735	0
Retained Earnings, Opening Balance	121,683	131,677	9,994
Net Income (Loss), Current Period	40,405	40,136	(269)
Total Shareholders' Equity	170,842	180,567	9,725
Provision for Pensions	11,500	11,245	(255)
Tax Provisions	4,500	4,279	(221)
Deferred Tax Provisions	500	0	(500)
Other Provisions and Accruals	4,000	9,467	5,467
Total Provisions	20,500	24,991	4,491
Trade Accounts Payable	10,000	15,596	5,596
Payable to Banks	7,000	2,532	(4,468)
Payables to Affiliates	0	217	217
Loans from Affiliates	43,537	27,559	(15,978)
Other Liabilities	0	0	0
Total Liabilities	60,537	45,904	(14,633)
Total Liabilities and Provisions	81,037	70,895	(10,142)
Total Equity, Liabilities, and Provisions	251,879	251,462	(417)

**ROXANE LABORATORIES, INC.**  
**Commentary on the Balance Sheet**  
**Millions U.S. \$**

**1997 Actual Vs. 1997 Budget**

- Total Property, Plant & Equipment down by \$4.2
  - Write down of production equipment \$2.8
  - Change in amortization life vs. budget \$1.4
- Total Inventories up \$ 9.0
  - Increase to reach higher customer service levels (1997 service level 92%, up from 85% in 1996)
- Trade Accounts Receivable down \$ 5.0
  - Additional reserves for price adjustments.
  - Absence of a fourth quarter extended terms sales deal.
- Total Provisions up \$ 4.5
  - Difference due to higher provisions e.g., Medicaid.
- Trade Accounts Payable up \$ 5.6
  - Difference due to timing of invoices at year end.
- Loans from Affiliates down \$16.0
  - Difference due to increased cash flow from higher profits.

**ROXANE LABORATORIES, INC**  
**THIRD PARTY REVENUES BY THERAPEUTIC GROUP**  
**1997 Budget & 1997 Actual**

Thousands U.S. \$

	1997 Budget	1997 Actual	Actual Over/(Under) 1997 Budget
Analgesics, Schedule II	\$59,563	\$56,618	(\$2,945)
Analgesics, Other	14,199	2,800	(11,399)
Antimetics / Appetite	18,748	17,123	(1,625)
Anesthetics, Local	6,100	4,883	(1,217)
Cardiovascular	9,967	7,061	(2,906)
Psychotropics	14,829	6,728	(8,101)
Corticosteriods	9,023	7,100	(1,923)
Respiratory Therapy	32,429	59,207	26,778
GI Tract	50,779	8,640	(42,139)
Supplements	3,496	3,724	228
Cough & Cold	1,101	791	(310)
NSAIDs	9,029	6,402	(2,627)
330 Project	20,249	52,415	32,166
Addiction Therapy	13,190	13,112	(78)
Antiviral	39,092	55,060	15,968
Misc., Systemic	6,229	5,477	(752)
Misc., Non-Systemic	1,132	1,143	11
Net Sales of Goods	309,155	308,284	(871)
Other Income	4,500	3,149	(1,351)
Net Sales	\$313,655	\$311,433	(\$2,222)

**ROXANE LABORATORIES, INC.**  
**Commentary on Third Party Revenues by Therapeutic Group**  
**Millions U.S. \$**

**Net Sales**

- 1997 Actual \$2.2 (.7%) below 1997 Budget.
  - Net Sales are reduced by an unbudgeted reserve (\$9.1) for customer inventory price adjustments planned for early 1998.
  - Duraclon (Analgesics, Other) sales lower than budget due to dosage preference.
  - Lithium and Haloperidol (Psychotropics) sales lower than budget due to a 1996 backorder situation that resulted in a loss in market position.
  - Ipratropium (Respiratory) market share greater than expected for 1997.
  - Ranitidine (GI Tract) sales lower than budget due to early competition.
  - Azathioprine and Hydroxyurea (330 Project) experienced no generic competition.
  - Viramune (Antiviral) growth better than anticipated for 1997.
  
- Value Management (e.g., Product Elimination) in 1997 resulted in the deletion of the following products:
  - Cocaine Sterile (Analgesic, Schedule II)
  - Acetaminophen Tablets (Analgesic, other)
  - Quinidine (Cardiovascular)
  - Alprazolam (Psychotropics)
  - Aminophylline (Respiratory)
  - Cimetidine (GI Tract)
  - Piroxicam (NSAIDs)
  - Sulfamethoxazole (Misc, Systemic)

These product eliminations, based upon profitability and market analysis accounted for 67 Items (SKUs), which amounted to over 10% of total items.

**ROXANE LABORATORIES, INC.**  
**INCOME STATEMENT**  
**THIRD PARTY**  
**1997 Budget & 1997 Actual**

Thousands U.S. \$

	1997 Budget	1997 Actual	Actual Over/(Under) 1997 Budget
Gross Sales of Goods	\$546,931	\$450,603	(\$96,328)
Sales Discounts	237,775	142,319	(95,456)
Net Sales of Goods	309,156	308,284	(872)
Royalty Income	0	0	0
Other Income	4,500	3,149	(1,351)
Net Sales	313,656	311,433	(2,223)
Standard Cost of Goods Sold	144,181	125,653	(18,528)
Variable Cost of Distribution	2,800	3,346	546
Royalties	7,734	15,162	7,428
Contribution I	158,941	167,272	8,331
Direct Promotion	20,055	17,139	(2,916)
Cost of Free goods	0	0	0
Contribution IA	138,886	150,133	11,247
Field Force	17,410	16,153	(1,257)
Contribution II	121,476	133,980	12,504
General Promotion - Activities	2,524	3,012	488
General Promotion - Organization	9,807	11,990	2,183
Indirect Cost of Distribution	4,358	3,980	(378)
Research & Development I	8,689	10,211	1,522
Medical Cost I	13,156	12,080	(1,076)
Adminstration	5,144	4,721	(423)
Cost of Idle Capacity I	0	0	0
Variances for Cost of Goods Sold I	2,182	(267)	(2,449)
(Income)/Expense I	5,206	9,789	4,583
Contribution III	70,410	78,464	8,054
Research & Development II	0	0	0
Medical Cost II	0	0	0
Operating Income/(Loss) BU	\$70,410	\$78,464	\$8,054



**ROXANE LABORATORIES, INC.**  
**Commentary on Third Party Income Statement**  
**Millions U.S. \$**

**Royalties**

- 1997 Actual \$7.4 (96 %) above 1997 Budget.
  - Reflects increased sales of Viramune and Ipratropium.

**Variances for cost of Goods Sold I**

- 1997 Actual \$2.4 below 1997 Budget.
  - Reflects elimination of \$2.0 LIFO reserves based on tax accounting change.
  - Reflects \$0.4 favorable production variances.

**Income/Expenses I**

- 1997 Actual \$4.6 (88%) above 1997 Budget.
  - Reflects change in amortization for Duraclon intangibles \$1.4
  - Reflects write down of production equipment \$2.8
  - Reflects additional bad debt provision \$0.4

**Operating Income**

- 1997 Actual \$8.0 (11.4%) above 1997 Budget.
  - Reflects higher Contribution I (\$8.3) resulting from favorable sales mix.

**ROXANE LABORATORIES, INC**  
**AFFILIATES REVENUES BY PRODUCT**  
**1997 Budget & 1997 Actual**

Thousands U.S. \$

	1997 Budget	1997 Actual	Actual Over/(Under) 1997 Budget
Alupent .04% 2.5ML 25	\$195	\$217	\$22
Alupent .06% 2.5ML 25	\$627	\$180	(447)
Atrovent MDI	\$0	\$0	0
Atrovent .02% 2.5ML 25	\$13,317	\$6,789	(6,528)
Viramune International 200MG 100s	\$0	\$1,383	1,383
Oramorph SR Canada	0	23	23
<b>Total Net Sales</b>	<b>\$14,139</b>	<b>\$8,592</b>	<b>(\$5,547)</b>

**ROXANE LABORATORIES, INC.**  
**Commentary on Affiliates Revenues by Product**  
**Millions U.S. \$**

**Gross Sales of Goods**

- 1997 Actual Gross Sales \$5.5 (39%) below 1997 Budget.
  - Atrovent UDV volume effected by generic competition.
  - Sales of Viramune to International Affiliates

**ROXANE LABORATORIES, INC.**  
**INCOME STATEMENT**  
**AFFILIATES**  
**1997 Budget & 1997 Actual**

Thousands U.S. \$

	1997 Budget	1997 Actual	Actual Over/(Under) 1997 Budget
Gross Sales of Goods	\$14,139	\$8,592	(\$5,547)
Sales Discounts	0	0	0
Net Sales of Goods	14,139	8,592	(5,547)
Royalty Income	0	0	0
Other Income	0	0	0
Net Sales	14,139	8,592	(5,547)
Standard Cost of Goods Sold	12,015	6,516	(5,499)
Variable Cost of Distribution	0	0	0
Royalties	0	0	0
Contribution I	2,124	2,076	(48)
Direct Promotion	0	0	0
Cost of Free goods	0	0	0
Contribution IA	2,124	2,076	(48)
Field Force	0	0	0
Contribution II	2,124	2,076	(48)
General Promotion - Activities	0	0	0
General Promotion - Organization	0	0	0
Indirect Cost of Distribution	0	0	0
Research & Development I	2,612	0	(2,612)
Medical Cost I	0	0	0
Adminstration	0	0	0
Cost of Idle Capacity I	0	0	0
Variances for Cost of Goods Sold I	712	0	(712)
(Income)/Expense I	0	0	0
Contribution III	(1,200)	2,076	3,276
Research & Development II	0	0	0
Medical Cost II	0	0	0
Operating Income/(Loss) BU	(\$1,200)	\$2,076	\$3,276

**ROXANE LABORATORIES, INC.**  
**Commentary on Affiliates Income Statement**  
**Millions U.S. \$**

**Operating Income**

- R&D and Production expenses for OPINA reclassified to Income/Expense III .